



Filed Electronically

February 2, 2012

Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

RE: Docket ID: OCC-2010-0003 Risk-Based Capital Guidelines: Market Risk; Alternatives to Credit Ratings for Debt and Securitization Positions

We appreciate the opportunity to comment on the amendment to the Notice of Proposed Rulemaking (“NPR”) regarding Risk Based Capital Guidelines: Market Risk – Alternatives to Credit Ratings for Debt and Securitization Positions. FTN Financial Capital Markets (“FTN”) is a bank dealer and a division of First Tennessee Bank National Association. FTN is an industry leader in fixed income sales, trading and strategies for institutional clients in the U.S. and abroad. FTN operates a distribution-focused business model pursuant to which it procures fixed income securities for the purpose of distribution to customers.

We understand that the Wall Street Reform and Consumer Protection Act requires removal of references to, and requirements of reliance on, credit ratings from regulations. However, we are concerned that: 1) the approach prescribed by the proposed rules does not result in an improvement to the current regulation, particularly those portions of the proposed rule which place reliance on OECD Country Risk Classifications, and 2) the proposed rules may result in an excessive amount of capital being required, particularly when considered in combination with the other proposed changes to the market risk capital rules.

In that regard, we respectfully submit the following comments:

Reliance on OECD Country Risk Classifications

The proposed rule places substantial reliance on OECD Country Risk Classifications (CRCs). Specifically, CRCs are proposed to be used in determining the specific risk weighting factor for debt positions of sovereigns, depository institutions, foreign banks, credit unions and public sector entities. As noted in the proposal, “the OECD is not subject to the sorts of conflicts of interest that affected NSROs because the OECD is not a commercial entity that produces credit assessments for fee-paying clients”. However, the CRCs have a substantial shortcoming in that they don’t measure the credit risk of the entity in question. The OECD’s documentation on their methodology follows (the emphasis is theirs).

“The country risk classifications are meant to reflect **country risk**. Under the Participants’ system, country risk is composed of transfer and convertibility risk (*i.e.* the risk a government imposes capital or exchange controls that prevent an entity from converting local currency into foreign currency and/or transferring funds to creditors located outside the country) and cases of force majeure (*e.g.* war, expropriation, revolution, civil disturbance, floods, earthquakes).



The country risk classifications **are not** sovereign risk classifications and should not, therefore, be compared with the sovereign risk classifications of private credit rating agencies (CRAs). Conceptually, they are more similar to the "country ceilings" that are produced by some of the major CRAs."

In addition to the questionable relevance of CRCs generally for their prescribed utilization in the context of the market risk capital rules, the specific method in which the rule proposes to apply them to depository institutions and public sector entities is problematic. Specifically, exposures to depositories and public sector entities are risk weighted based upon the CRC of the entity's sovereign of incorporation; thus, all such entities incorporated within a given sovereign will receive the same specific risk weighting factor without regard to the specific credit quality of the obligor.

Complexity of Proposed Rule for Corporate Debt Positions and Securitizations

The proposed methodology for determining specific risk weighting factors for corporate debt positions and securitizations is overly complex, time-consuming and burdensome. A banking organization's only option for avoiding such complexity and resource consumption is to default to a specific risk weighting factor of 8% for all corporate debt positions and 100% for securitizations; these default risk weightings are a costly option from a capital consumption standpoint. Additionally, even if a banking organization chooses to perform the complex calculations rather than using the default approach, the resulting risk-weightings will generally be substantially greater than under the current system.

Although we recognize the need to comply with the Dodd Frank mandate to eliminate the use of credit ratings, we believe the proposal represents a less effective and more burdensome approach than the current system.

We thank you again for the opportunity to comment on the proposed amendment to the NPR and appreciate your willingness to consider our thoughts.

Sincerely,

A handwritten signature in blue ink, appearing to read 'M. Waddell'.

Michael K. Waddell
Executive Vice President
Chief Operating and Financial Officer